

INTERNAL AUDIT REPORT

2021-04

Procurement Card Review

Eagle River/Chugiak Parks and Recreation Division

Parks and Recreation Department

June 10, 2021

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Municipality of Anchorage

Austin Quinn-Davidson
Acting Mayor

Internal Audit Department

June 10, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-04, Procurement Card Review, Eagle River/Chugiak Parks and Recreation Division, Parks and Recreation Department**. A brief summary of the report is presented below.

As a supplement resulting from our Annual Municipal Procurement Card Review (Internal Audit Report 2021-03), we have completed an audit of Procurement Card Purchases at the Eagle River/Chugiak Parks and Recreation Division. The objective of this audit was to determine whether Eagle River/Chugiak Parks and Recreation Division employees adhered to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1, 2020, to February 28, 2021. Specifically, we reviewed judgmentally selected P-Card transactions to ensure compliance with Policy and Procedure 48-16, *Procurement Card Program*, Policy and Procedure 24-23, *Disallowed Purchases*, and the Procurement Card Guide.

Our audit revealed that Eagle River/Chugiak Parks and Recreation Division controls over Procurement Card purchases need improvement. By and large, after reviewing the Eagle River/Chugiak Parks and Recreation Division's Procurement Card purchases and physically visiting the Eagle River/Chugiak Parks and Recreation Division's facilities, it appears that the tone set by the Eagle River/Chugiak Parks and Recreation Division's management is a culture of excess. Specifically, when we visited the Eagle River/Chugiak Parks and Recreation Division's facilities, we found purchased goods stored in the reception area, office hallways, an office, a conference room, four closets, a drive-in bay area, five conexes, a maintenance garage, and horse stables with very little labeling indicating where items should be stored. Moreover, the Eagle River/Chugiak Parks and Recreation Division had not catalogued previously purchased equipment and supplies to evaluate what was in stock to identify whether additional materials were needed, help ensure accountability, and to ensure that items were not missing. Furthermore, some items purchases made by the Eagle River/Chugiak Parks and Recreation Division were not fully planned to determine if the items were needed and how they would be used; we identified several questionable purchases; and some Procurement Card purchases made for the Beach Lake Lodge appeared to be excessive. In addition, the Eagle River/Chugiak Parks and Recreation Division did not always maintain complete, accurate, or readily available information regarding Procurement Card transactions. Finally, configurations in the Procurement Card payment system allowed Procurement Card transactions to be approved by a cardholder's subordinate and allowed Procurement Card holders to review and approve their own transactions.

There were eight findings in connection with this audit. Management was responsive to the findings and recommendations.

A handwritten signature in blue ink, appearing to read "Michael Chadwick". The signature is written in a cursive style with a large initial "M".

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Austin Quinn-Davidson
Acting Mayor

Internal Audit Department

June 10, 2021

Internal Audit Report 2021-04
Procurement Card Review
Eagle River/Chugiak Parks and Recreation Division
Parks and Recreation Department

Introduction. The Eagle River/Chugiak Parks and Recreation Division (Division) is part of the Anchorage Parks and Recreation Department (Department). The Division's mission is to enhance the quality of life for its residents by developing and maintaining parks, trails, and facilities in Eagle River and Chugiak. The Division maintains 16 developed and 13 undeveloped park properties, which include 32 kilometers of ski trails, 10 playground areas, 11 picnic shelters, 14 athletic fields/courts, the Beach Lake Chalet, the Beach Lake Lodge (Lodge), the Chugiak Pool, and the Harry J. McDonald Memorial Center (McDonald Center). The Division also has a summer day camp program that services 800 children every summer for 10 weeks and annually sponsors a Halloween event known as "Boo at the Beach."

Objective and Scope. The objective of this audit was to determine whether Division employees adhered to Municipal policies and procedures regarding Procurement Card (P-Card) use. Our audit included a review of purchases made from January 1, 2020, to February 28, 2021. Specifically, we reviewed judgmentally selected P-Card transactions to ensure compliance with Policy and Procedure (P&P) 48-16, *Procurement Card Program (P-Card)*, P&P 24-23, *Disallowed Purchases*, and the Procurement Card Guide (Guide).

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was performed during the period of March through April 2021. The audit is a supplement resulting from our Annual Municipal Procurement Card Review (Internal Audit Report 2021-03) as required by P&P 48-16, section 6.f.i.

Overall Evaluation. The Eagle River/Chugiak Parks and Recreation Division's controls over P-Card purchases need improvement. By and large, after reviewing the Division's P-Card purchases and physically visiting the Division's facilities, it appears that the tone set by the Division's management is a culture of excess. Specifically, when we visited the Division's facilities, we found purchased goods stored in the reception area, office hallways, an office, a conference room, four closets, a drive-in bay area, five conexas, a maintenance garage, and horse stables with very little labeling indicating where items should be stored. Moreover, the Division had not catalogued previously purchased equipment and supplies to evaluate what was in stock to identify whether additional materials were needed, help ensure accountability, and to ensure that items were not missing. Furthermore, some purchases made by the Division were not fully planned to determine if the items were needed and how they would be used; we identified several questionable purchases; and some P-Card purchases made for the Lodge appeared to be excessive. In addition, the Division did not always maintain complete, accurate, or readily available information regarding P-Card transactions. Finally, configurations in the P-Card payment system allowed P-Card transactions to be approved by a cardholder's subordinate and allowed P-Card holders to review and approve their own transactions.

FINDINGS AND RECOMMENDATIONS

1. Culture of Excess.

- a. Finding.** After reviewing the Division's P-Card purchases and physically visiting the Division's facilities, it appears that the tone set by the Division's management is a culture of excess. For example, in 2020 P-Card purchases for the Anchorage Parks and Recreation Department's annual Halloween event totaled about \$85, while P-Card purchases for the Division's annual Halloween event totaled over \$12,300. Both

Halloween events were canceled in 2020. As discussed throughout this report, many of these purchases appeared unnecessary and had not been cataloged, fully planned, and properly stored in several cases.

Tone at the top is the first attribute of internal control listed in the Government Accountability Office's publication titled *Standards for Internal Control in the Federal Government*, commonly referred to as the "Green Book." Although we recognize that the Division is part of local government, this standard can be applied across all government organizations. Specifically, the Green Book states that, "The oversight body and management demonstrate the importance of integrity and ethical values through their directives, attitudes, and behavior."

- b. **Recommendation.** The Department Director should work with the Division Manager to evaluate how the tone set by management can be changed to strengthen internal controls.

- c. **Management Comments.** Management stated, "Concur. The Anchorage Parks and Recreation Department Director will work with the Eagle River/Chugiak Parks and Recreation Division Manager to evaluate how the tone set by management can be changed to strengthen internal controls. Internal controls will be realized through an approved program plan for the annual event with an inventory and annual budget established."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Items Not Properly Organized.**

- a. **Finding.** When we visited the Division’s facilities, we found purchased goods stored in the reception area, office hallways, an office, a conference room, four closets, a drive-in bay area, five conexas, a maintenance garage, and horse stables with very little labeling indicating where items should be stored. In some locations, the items were organized or somewhat organized, yet in other cases they were not organized at all. Unorganized storage areas may indicate to visitors and staff that efficiency is lacking. Organized storage facilities can lead to improved efficiency by helping staff move around more quickly and get things done more efficiently. According to the Division Manager, many items remained unorganized because they were still recovering from the November 2018 earthquake. Examples of unorganized items are shown below.

Items Stored in Closets/Cabinets



Items Stored in the Conference Room



Items Stored in an Office Area



Items Stored in Drive-in Bay Area



Moreover, even recently purchased items were not stored in an organized fashion. For example, as discussed in Finding 4, in February 2021, wooden bird houses, kites, and glider planes were purchased. As shown below, during our March 17, 2021, visit, we found the glider planes in the reception area, the bird houses on a conference room table, and the kites in a closet that contained mostly Christmas related items.

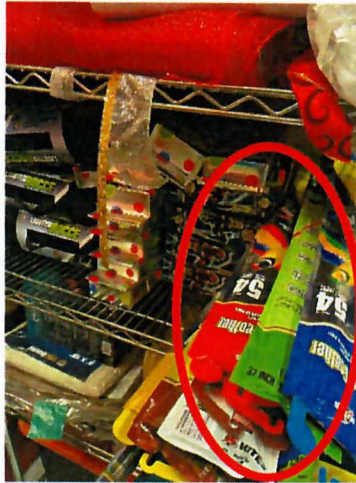
Glider Planes Stored in Reception Area (in red circle)



Bird Houses Stored on Conference Room Table



Kites Stored in Christmas Closet (in red circle)



- b. **Recommendation.** The Department Director should ensure that items stored at the Division’s facilities are organized, with proper labeling, for easy identification and retrieval.
- c. **Management Comments.** Management stated, “Concur. The Director will ensure that items stored at the Division’s facilities are organized, with proper labeling, for easy identification and retrieval. The planned and new storage facility will position the division to be more organized with programmatic supplies.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Purchased Items Not Cataloged.**
- a. **Finding.** The Eagle River/Chugiak Parks and Recreation Division had not cataloged previously purchased equipment and supplies to evaluate what was in stock to identify whether additional materials were needed, help ensure accountability, and to ensure that items were not missing. As a result, in many cases, it was difficult to determine

how many items existed or where the items were stored. When reviewing P-Card purchases, we noted that many of the purchases for events, camps, and the Lodge were made by one employee. According to this employee, since she made many of the purchases, she just knew what was needed.

- b. **Recommendation.** The Department Director should ensure that a catalog of purchased items is developed so that the Division knows what is in stock before purchases are made, to help ensure accountability, and to ensure that items are not missing.
- c. **Management Comments.** Management stated, “Concur. The Director will ensure that a catalog of purchased items is developed so that the Division knows what is in stock before purchases are made, to help ensure accountability and to ensure that items are not missing.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Purchases Not Always Fully Planned.**

- a. **Finding.** Some purchases made by the Division were not fully planned to determine if the items were needed and how they would be used. As a result, these purchases did not have a clear business need and/or appeared to be in excess of the Division’s needs. Basic planning elements for events such as camp are getting organized, taking inventory of your assets, and setting the direction. For example, while visiting the Division, we found children’s toys in the hallway and reception area as shown below.

Toys in Hallway



Toys in Reception Area



The Division Manager told us they planned to use these items on the indoor turf at the McDonald Center to help incentivize its use. However, she had not yet met with the McDonald Center's contractor to discuss the plan, even though toys had already been purchased.

Moreover, we were told that sometimes purchased goods unexpectedly showed up without a clearly communicated purpose. For example, we opened one closet adjacent to the Chugiak-Eagle River Library that contained books. Staff thought there were no Division items stored there, but we found swim items/toys, including a "Deluxe Frosted Family Pool," a "Chicken Fight Pool Game," a "Jumbo Inflatable Derby Duck," "Shark Tail Blankets," and other swim items/toys as shown in the picture below. When we inquired, staff did not know why these swim items/toys were purchased or what activity they primarily supported, but the Division Manager told us the items were for pool activities and a water day at a park.

Swim Items/Toys



Furthermore, our visit to the Division's facilities identified items where the intended use was unclear and/or seemed excessive. Some of these purchases may have been made in prior years. For example:

Unopened Boxes of Electric Scooters



Art Supplies



Spray Paint



Hula Hoops (in red circle)



Unopened Canopies



Opened Canopies and Tent



Christmas Wrapping Paper



In addition, minutes from the February 8, 2021, Eagle River/Chugiak Parks and Recreation Board of Supervisors (Board) meeting stated that “We are cancelling summer camp again this summer . . .” in 2021. Although camps for 2021 were canceled, we found that P-Card purchases were made on February 15 at Goodwill Industries for wooden bird houses and Styrofoam craft balls; February 20 at Carrs for kites, bubbles, chalk, and disk guns; and February 23 at Three Bears for hula hoops and glider planes.

Finally, it appears that purchases were made while on personal errands when some items were found at discounted rates. For example, when reviewing the receipts for judgmentally selected purchases we identified several purchases that were made during non-working hours. Some of these purchases were made on weekends and other purchases were made in the evenings on various weekdays.

- b. **Recommendation.** The Department Director should ensure that the Division Manager develops and communicates to staff a plan and budget of items to be purchased for upcoming events, taking into consideration what has already been purchased.

- c. **Management Comments.** Management stated, “Concur. The Director will ensure that the Division Manager develops and communicates to staff a plan and budget of items to be purchased for upcoming events, taking into consideration what has already been purchased with a defined programmatic need.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Questionable Purchases.**

- a. **Finding.** During our review of 2020 P-Card purchases, we identified several questionable purchases. These purchases became more dubious during our review since all 2020 camps were canceled in April 2020 and the annual Boo at the Beach (Halloween) event was also canceled in late summer/early fall due to COVID-19, yet purchases were made to support these activities. For example, questionable purchases we identified included:
- A \$1,149 purchase made on August 9th for “event LED lighting”;
 - A \$2,417 purchase made on August 28th for “BOO - pumpkins/ghosts/witches event materials”;
 - A \$535 purchase made on September 19th for “BOO - Kids Trail Octopus/black light fabric and embellishments”;
 - A \$670 purchase made on September 27th for “Event supplies - bowls, masks, spiders and costume accessories”;
 - A \$1,090 purchase made on October 2nd for “Event and Camp sunshade Umbrellas = spaceships”; and
 - A \$703 purchase made on November 5th for “BOO - kids trail props, octopus and skeletons etc.”

Finally, a \$600 purchase on June 3, 2020, for “Employee face masks -maintenance, office, pool, and Anchorage Recreation staff” was made from a relative of one of the Division’s employees.

- b. **Recommendation.** The Department Director should consider implementing a pre-approval process for P-Card purchases to help ensure that purchases meet business needs.
- c. **Management Comments.** Management stated, “Concur. The Director will consider implementing a pre-approval process for P-Card purchases to help ensure that purchases meet business needs. Approved programmatic planning will identify the annual need based on current inventory. An annual budget will be established for each program plan.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Some Purchases for the Lodge Appeared Excessive.**

- a. **Finding.** Some P-Card purchases made for the Lodge appeared to be excessive. When we asked about these purchases, we were told and later read in the Board minutes that over the years the Lodge was vandalized, and maintenance was neglected. As a result, since 2014, the Division Manager has been renovating the Lodge’s interior and exterior, as well as two smaller cabins and a boardwalk.

The Beach Lake Park Master Plan describes the Lodge as “. . . a wilderness lodge and two small cabins at Beach Lake” We could not find anything beyond this description nor were we provided anything that adequately described the Lodge’s intended use. As a result, it was difficult to determine if the Lodge’s décor matched

its intended use. Finally, we could not find anything on the Division’s website advertising this public rental facility other than rental forms.

While reviewing P-Card purchases, we identified many purchases made to supply and decorate the Lodge. For example, from 2017 until February 2021, the following kitchen items for the Lodge were purchased using a P-Card:

<u>Transaction Date</u>	<u>Vendor</u>	<u>Description (Bold Added)</u>	<u>Amount</u>
July 2017	Goodwill Industries	“Bear Paw float supplies, Lodge replacement pans & dishes. . .”	\$94.32
July 2017	Salvation Army	“Lodge pot holders , signage & rags. . .”	\$49.37
August 2017	Salvation Army	“Lodge linens & dishes. . .”	\$28.87
November 2017	Bed, Bath & Beyond	“Lodge & Caretakers LED bulbs, utensils. . .”	\$438.08
September 2018	Bed, Bath & Beyond	“Lodge replacement kitchen utensils ”	\$176.57
September 2018	Value Village	“Lodge replacement glassware , event curtain panels”	\$295.91
February 2019	Value Village	“Lodge replacement dishes , linens, signage”	\$114.82
August 2019	Goodwill Industries	“Lodge Seating and dishware replacement ”	\$131.90
February 2021	Goodwill Industries	“ Replacement Pots/Pans - Rental Lodge”	\$90.97

In addition, other purchases for the Lodge include wall hangings, light fixtures, blankets, linens, pillows, towels, décor, and curtain panels. Moreover, we were told that different décor is placed throughout the Lodge depending on the activity. For example, if the Lodge is rented for a wedding then the artwork and the futons’ pillows may be traded for artwork and pillows that fit a wedding theme. As a result, the Lodge appears to be well-furnished, as shown below.

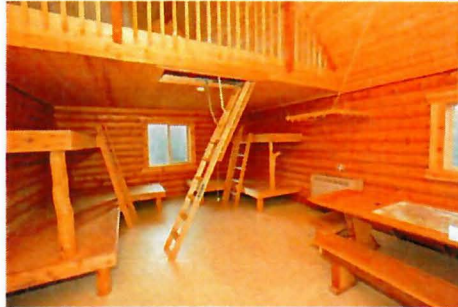


More pictures were stored in the Lodge's maintenance room, as shown below.



While the Lodge has an inviting atmosphere, we question if many of the items used to decorate and furnish the Lodge were necessary and if these items could easily be stolen since they were not securely fastened. In addition, as shown below, the Lodge is more well-furnished compared to other public use rental cabins in the Anchorage area.

Bore Tide Cabin at Bird Creek



Eklutna Lake Dolly Varden Cabin



- b. **Recommendation.** The Department Director should develop a statement outlining the Lodge's intended use and ensure that expenditures fulfill the intended use.
- c. **Management Comments.** Management stated, "Concur. The Director will develop a statement outlining the Lodge's intended use and ensure that expenditures fulfill the intended use. Historic and current use of the Lodge will be used to establish the intended fit and finish of the venue."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **P-Card Files Not Always Properly Maintained.**

- a. **Finding.** The Eagle River/Chugiak Parks and Recreation Division did not always maintain complete, accurate, or readily available information regarding P-Card transactions. For example, when we asked to see the backup for some judgmentally selected transactions for one employee, staff had to locate the receipts because they had not been provided in a timely manner. In some cases, the receipts provided little information since they did not identify what was purchased. For example, one receipt identified purchases as "Seasonal," "Commercial T Salvage," "Housewares Yellow," and "Women Apparel Orange." These problems made it difficult and time-consuming

for staff to reconcile and review statements. Although P&P 48-16 does not specifically address how P-Card files are to be kept, the Guide does provide some direction. The Guide states that the files, along with supporting documentation, will be maintained in the department by a designated individual in such a manner that individual transactions, or a specific date range of transactions, can be easily recovered. It also recommends that individual transactions be filed in a date sequence based upon the actual transaction date. Furthermore, the Guide states it is the responsibility of the cardholder to document any anomalies, lost receipts, future credits, returns, or other pertinent information in the cardholder's file. These files are important because they are the source of information for periodic reviews.

- b. **Recommendation.** The Department Director should ensure that all required documentation is obtained and maintained for all P-Card transactions.
- c. **Management Comments.** Management stated, "Concur. The Director will ensure that all required documentation is obtained and maintained for all P-Card transactions."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **P-Card Review and Approval Authority Needs to be Modified.**

- a. **Finding.** Configurations in the P-Card payment system allowed P-Card transactions to be approved by a cardholder's subordinate and allowed P-Card holders to review and approve their own transactions. Approval by a P-Card holder's subordinate cannot be considered independent because the subordinate may not feel empowered to challenge questionable purchases made by a supervisor. Per P&P 48-16, division directors, managers, and supervisors shall "Approve transactions of direct

subordinates” Moreover, in 2020, one P-Card holder reviewed and approved seven of her own transactions and another P-Card holder reviewed and approved one transaction. Having the ability to both review and approve one’s own transactions is an inadequate segregation of duties and does not provide an independent review and approval of P-Card transactions.

- b. **Recommendation.** The Department Director should work with the Purchasing Department to modify P-Card configurations at the Division to ensure P-Card transactions are not approved by subordinates and to ensure that P-Card holders cannot both review and approve their own P-Card transactions.

- c. **Management Comments.** Management stated, “Concur. The Director will work with the Purchasing Department to modify P-Card configurations at the Division to ensure P-Card transactions are not approved by subordinates and to ensure that P-Card holders cannot both review and approve their own P-Card transactions.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on May 13, 2021.

Audit Staff:
Scott Lee